



***THE ESSENTIAL GUIDE FOR FIRST TIME
BUSINESS ACQUIRERS***

TENNEY
— GROUP —



BECOME A BETTER ACQUIRER

A variety of industry challenges are forcing trucking business owners to evolve in ways they may not have expected or desired. In the last 18 months, Tenney Group has seen a surge of existing trucking businesses who have registered a buyer profile with our team.

What does this mean for you? It should drive home the fact that winning the future may require integrating acquisitions into your growth strategy. Without acquisitions, it may be extremely difficult to confront the unforgiving challenges of the day...namely rising insurance costs and the driver shortage.

Even when organic growth opportunities are abundant, companies cannot execute a sustainable growth strategy without drivers. In some cases, growth through acquisitions is the only viable option to secure or protect a competitive advantage.

Consequently, the pool of buyers is quickly multiplying and so is the competition to get deals done. That is why it critical for you to differentiate from the pack and why we have developed the Essential Guide for First Time Trucking Business Acquirers.





In the Essential Guide for First Time Trucking Business Acquirers, readers will learn:

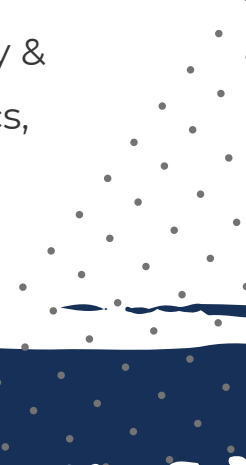
- How to multiply sources of deal flow and maximize your overall transaction efficiency.
- How to efficiently construct a simple non-binding offer. • How to be the seller's #1 choice.
- How to not overpay or lose a deal due to paralysis by analysis.
- How to incorporate best practices from our industry's most prolific acquirers.

Above all, the purpose of this guide is to keep you focused on simple, essential practices that can immediately streamline your approach of growing through acquisitions and produce real impact.

ABOUT TENNEY GROUP

Tenney Group is an industry-specialized merger and acquisition advisory firm that has been dedicated to transportation and logistics since 1973. 80% of our practice is sell-side advisory services for companies with annual revenues ranging from 10M – 300M. Our transactions involve some of the largest and most prolific transportation acquirers in the world.

Some of our recent deals have included companies such as Fraley & Schilling, Forward Air, HIG Capital/Cardinal Logistics, NRX Logistics, Freight Rite, New Spring Capital, KBT Enterprises, and Linn Star Transfer. Visit www.thetenneygroup.com for more information.



GETTING STARTED & AVOIDING UNFORCED ERRORS

Establishing Your Why

In the book, "Start with Why", Simon Sinek shares that "Success comes when you are clear in pursuit of why you want it." Without a clear why, it is difficult to achieve efficient success when pursuing growth through acquisitions.

Getting deals done can be difficult. Bumps along the road should be expected. A clear "why" will ensure you stay committed to the path of growing through acquisitions despite the challenges along the way. Below are examples as to why trucking companies are integrating acquisitions into a broader growth strategy.

- Working harder and making less money.
- Unable to keep the best people if I don't grow.
- Recruiting drivers isn't worth the effort.
- Ready to get serious about building wealth for retirement.
- Inefficient operations at current scale.
- Looking to protect my competitive advantage.

Whatever the reason for investing time and resources in the process of growing through acquisitions, keep that "why" front and center all the time.



Developing an Acquisition Profile + Funding Strategy

The most common advice we give to first-time buyers is to streamline their criteria for an acquisition target.

When a buyer's criteria either covers too much geography or fails to consider their own capabilities and/or limitations to get a deal across the finish line, he or she invites tremendous inefficiency on the front end of an acquisition effort.

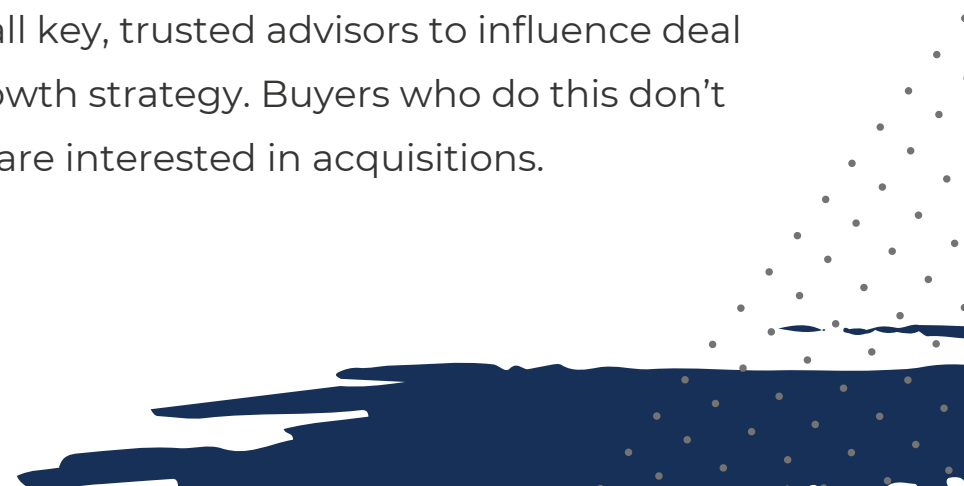
Do your homework on what will be required to get a deal done while taking into consideration what financing sources you can realistically bring to the table. Sources of financing include but are not limited to equipment financing, seller financing, a revolver on the seller's receivables, roll forward equity, and equity (cash from buyer).

This discipline on the front end of your effort will help you avoid hundreds of conversations that will only distract from your primary responsibilities to your company.

Mobilizing Your Network to Create Deal Flow

Of course, register your buyer profile with Tenney Group. This will ensure you are quickly connected to fitting acquisition opportunities.

Don't stop there. Mobilize all key, trusted advisors to influence deal flow that supports your growth strategy. Buyers who do this don't just tell their advisors they are interested in acquisitions.





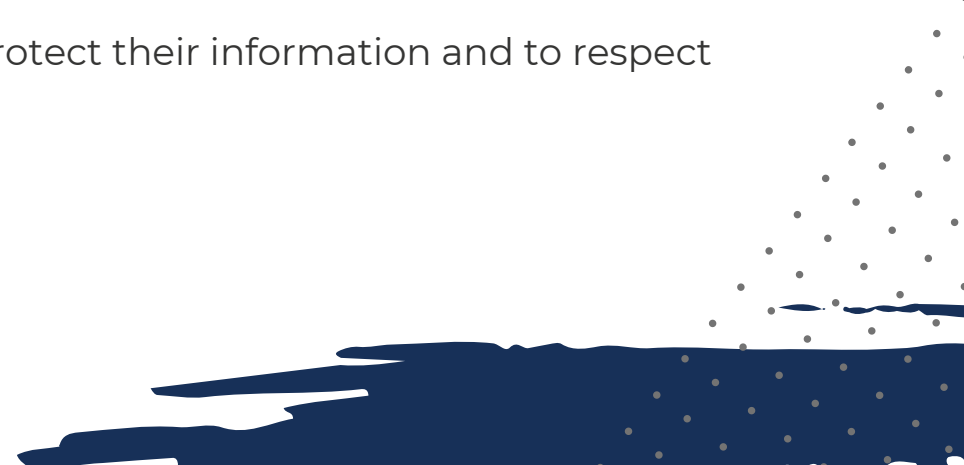
They share the problem they are trying to solve through acquisitions and the specific characteristics of the target company that is most likely to help them solve that problem.

Some common advisors you may want to consider looping into your acquisition strategy include your management team and their personal networks, insurance solution specialists, CPAs, industry consultants, industry influencers, M&A advisors, key suppliers, and retired industry friends.

Make an Effort to Understand and Respect the Target Company

Most of the companies you are targeting to acquire are selling a trucking business for the first time. Some have friends who have had a bad experience with a business sale or with a buyer who wasted their time and/or compromised confidentiality.

You should expect a certain amount of distrust or skepticism... especially in your initial conversations with the target seller. This is an opportunity for you to shine. Develop a “first touch” communication strategy with prospective sellers that addresses the following:

1. Your sincere interest in exploring a possible transaction together.
 2. Your understanding of the sensitive nature of exploring a transaction.
 3. Your commitment to protect their information and to respect their time.
- 

4 HABITS OF HIGHLY EFFECTIVE ACQUIRERS

Show Restraint

Once you identify an acquisition target that is a possible fit, it is customary to execute a non-disclosure agreement (NDA) to open a conversation about transaction possibilities.

Understand that signing an NDA does not give you unrestricted access to whatever you want to know about the business. Too many amateur buyers have asked for and received too much information only to drop off the grid with no explanation to the seller.

Sellers don't forget stuff like that... neither do their industry peers. Don't be that buyer. Differentiate yourself by showing respect and only asking for what you need when you need it. Start by asking the seller for a one-page teaser or executive summary.

Then, if still interested, build off that. This approach saves time and is more likely to build much-needed trust with the seller.

Get to "Next" Fast

Many buyers spend way too much time exploring the details of a business for sale without good reason. Instead, try this. If the seller has sale representation, share with their advisor what you are trying to accomplish strategically and what problems you are trying to address.



Prioritize “fit” above all else. Ask the advisor or, if necessary, the seller if what they have to offer can address your very specific strategic goals.

If not, it is a good practice for all to just say “next” as quickly as possible. A bonus is that the seller will greatly appreciate the courtesy. Goodwill in this industry goes a long way, and it always comes back around.

Make Offers

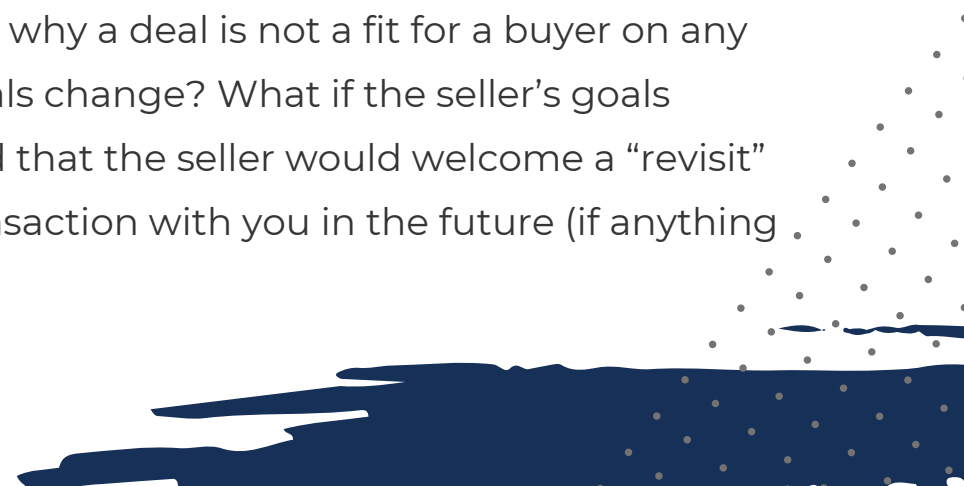
This sounds so basic, but it is not. The best acquirers differentiate themselves by how quickly they can help the seller understand if the two parties are aligned on the most critical matter of all – the money.

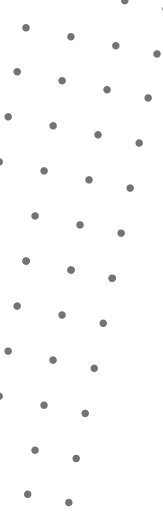
How many stories have you heard about a seller who gave all their information to a buyer only to have that same buyer provide no context for next steps and slowly cease interaction?

Don’t be that buyer. Process matters. Creating a safe and efficient process for the seller will enhance the probability of you getting the deal done – even if your offer is not the highest on paper.

Keep the Door Open

Many factors can influence why a deal is not a fit for a buyer on any given day. What if your goals change? What if the seller’s goals change? Have you ensured that the seller would welcome a “revisit” to exploring a possible transaction with you in the future (if anything changes)?





If you are not gaining permission to keep the door open, you are making a mistake. People do business with people they like. It's that simple. So is being an effective acquirer in the transportation and logistics space.

INDICATION OF INTEREST TEMPLATE (NON-BINDING OFFER)

Again, you can't be an effective buyer unless you make offers. One of the most effective tools used by effective buyers is a non-binding offer called an indication of interest. Its purpose is to outline a basic economic framework for an offer that is 100% subject to diligence.

This approach places the number one priority upfront of the conversation. "Assuming I am 100% satisfied with due diligence, the range of possible offers would likely be _____."

This simple approach often saves buyers hundreds of hours from due diligence that was never necessary. As early as you possibly can, confirm you are in the same economic universe as the seller.

This practice is usually welcomed and appreciated by the seller.



INDICATION OF INTEREST TEMPLATE

May 7th, 2021

PERSONAL & CONFIDENTIAL – INDICATION OF INTEREST

To the ABC Trucking Team,

Thank you for the opportunity to learn more about ABC Trucking and for allowing my team to explore a possible transaction together. We are optimistic that, with your help, we can clearly understand the complete risks and rewards associated with a business purchase and confidently move forward. Please consider this letter our indication of interest to purchase the assets of the ABC Trucking.

In the interest of efficiency, I would like to provide you a framework for a possible offer. Hopefully, this will help expedite the process of getting our goals in alignment with one another. My team is interested in a transaction that contains the following characteristics:

- Proposed Consideration Structure based on our current understanding of ABC Trucking:
 - Range of total consideration of \$XXX - \$XXX, with structure varying based on:

INDICATION OF INTEREST TEMPLATE - CONTINUED

Total Consideration	\$XXX - \$XXX
Basis of Valuation	Multiple of LTM EBITDA
Consideration Structure (i.e. range or % of Cash vs. Contingent)	\$X - \$X Cash Up to \$X Contingent
Contingent Consideration Type (i.e. Earn-out, etc.)	Earn-Out
Basis of Earn-Out (i.e. Revenue, Gross Margin, Operating Income, EBITDA, etc.)	
Approximate Length of Earn-out	X-X years
Length of Management Team Involvement in Transition	X-X years
Approximate time from LOI execution to Purchase Agreement (i.e. time for Diligence / Purchase Agreement drafting)	X Days

• Buyer would expect to:

- Evaluate key employees and determine possible employment contracts.
- Negotiate leases with the seller for the main facilities used in the operations of the Company.
- Require assistance from key employees following close of transaction for a mutually agreeable period.

INDICATION OF INTEREST TEMPLATE - CONTINUED

If the proposed transaction framework or a similar framework is acceptable to seller, buyer proposes to move forward with the following next steps:

- Execute a letter of intent that clarifies expectations for all parties concerning terms and process for completing a transaction.
- Perform customary due diligence.
- Finalize the purchase agreement.
- Work together with the ABC Trucking team to formulate a thoughtful transition strategy that meets everyone's objectives.
- Complete the transaction.
- Celebrate the beginning of an exciting new chapter for all parties involved.

Again, my team is very enthusiastic about the possible purchase of ABC Trucking. Thank you for your time and consideration. I look forward to your feedback.

Sincerely,

John Smith

Owner, Acme Trucking



**AS EARLY AS YOU POSSIBLY CAN, CONFIRM
YOU ARE IN THE SAME ECONOMIC UNIVERSE
AS THE SELLER.**

HOW TO NOT OVERPAY . . . OR LOSE DEALS DUE TO PARALYSIS BY ANALYSIS?

Deals get done when buyers clearly understand the financial justification for doing the deal. In the absence of clear financial justification, buyers can get cold feet or self-sabotage a great acquisition opportunity.

However, time (and paralysis by analysis) kills deals. If you don't have a CFO who is accustomed to efficiently building acquisition models (or who can but doesn't have the bandwidth), it is critical to subcontract this function.

The model below is example of how simple financial modeling can inject confidence and speed into a buyer's decision-making process. Using many of the target company's measurables (FMV of equipment, receivables balance, etc.), a buyer was able to build a model that outlined at a 4.25x multiple, they would be able to deliver \$35M in cash to the seller at close – via equipment financing of \$28M and equity (cash) of \$7M.

Separately, there could be a seller note that rounded out the total consideration, of which would be paid out over 3 years. All that said, with these terms, the buyer could see a 43.8% return on equity – even after CapEx was reinvested properly. Not only that, but with this structure the business could still deliver a positive cash flow after an acquisition.

Building a model or having the work subcontracted out is extremely important in understanding what a competitive offer could look like, which ultimately could enhance your chance of “submitting the winning bid.”

Summary - Overview									
Price Multiple		4.25		Adj. EBITDA		Enterprise Value (EV)		48,450,000	
						Buyer Equity		7,267,500	
						Buyer's Actual ROE		43.8 %	
Buyer Receives					Payment Details				
EBITDA		11,400,000		Cash To Seller at closing		35,557,500		73.4 %	
Net Assets @ BV		35,000,000		Gap (Seller) Note		12,892,500		26.6	
Net Assets @ FMV		32,000,000		Gap (Seller) Balloon Note		0		0.0	
Goodwill		16,450,000		Non-Compete + Pers. Goodwill		0		0.0	
Stock vs. Asset Purch.		Asset		Remaining Consulting		0		0.0	
						Enterprise Value (EV)		48,450,000	
☒ Show CF								100 %	
Year 1		Year 2		Year 3		Year 4		Year 5	
BVX Cash Flow		940,635		952,647		976,406		1,012,838	
Add'l Revolver		N/A		N/A		N/A		N/A	
Taxable Income		2,507,560		1,833,201		1,139,821		426,916	
								-306,031	
						Cash to Seller at Closing		35,557,500	
						Buyer Equity		7,267,500	
						Revolver + Term Debt		28,290,000	
						Over Adv Loan + Mezz		0	
						Total Capital Raised		35,557,500	
						Less Acq Exp + X-Cash		0	

Application Example: Recently, Tenney Group was providing buy-side advisory services to a \$120M carrier. He gave our team clear transaction parameters in which he would acquire another trucking operation.

These parameters included: acceptable cash flow after the debt service of the acquisition (he wanted to make sure there was some cushion for performance surprises), acceptable return on equity, acceptable cash down payment, and acceptable senior debt and seller note terms.

Once we evaluated a particular transaction opportunity, we would give four deal structure options (four versions of the model above) and would send all four to him in the body of one email.



Over a ten-minute phone call, he would select the offer he liked best. We would put together the indication of interest together, slap on his electronic signature, and present it to the seller. Our client had internal resources who could handle these functions.

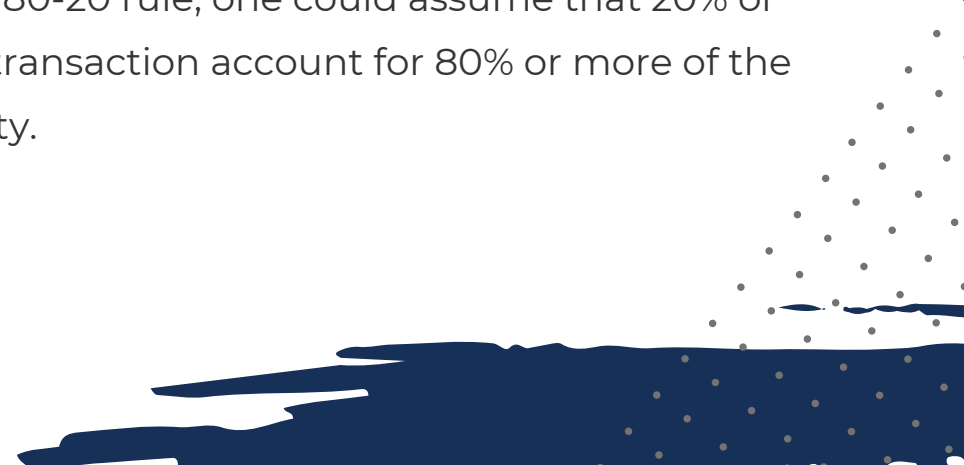
But what was taking us hours would have taken them weeks. The seller was amazed and incredibly appreciative of how fast our client could turn around an offer. The takeaway is to equip yourself with the right tools that will ensure you don't overpay and that will ensure you can move faster than the other buyer who is trying to get an offer to the seller.

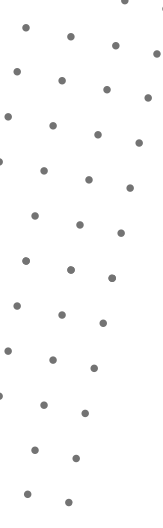
Sellers consider speed courtesy. With courtesy comes trust. With trust comes completed acquisitions. Get moving.

DEAL MAKING 101: CHOOSING RIGHT BATTLES IS KEY TO WINNING THE WAR

In order for buyers and sellers of businesses to successfully execute a transaction, both sides must remain disciplined in allocating time, energy, and focus on diligence and negotiation.

Consistent with the classic 80-20 rule, one could assume that 20% or less of the deal points in a transaction account for 80% or more of the value creation for each party.





However, many transactions fail to even make it to the closing table when one or both parties get bogged down by the 80% of deal points that only have a marginal impact on value.

Below are three strategies to consider to “choose the right battles” on the path to “winning the war” – to successfully close a transaction.

Focus on material deal points in the context of transaction goals.

Before embarking on a journey to buy or sell a business, it is critical to define goals to serve as a filter for various opportunities that the market may make available.

Sellers must define goals around financial outcome, post-transaction involvement, plans for key employees, etc., while buyers must define strategic and financial rationale for acquisitions as part of their larger growth plan.

When negotiating a transaction, both parties must let these goals serve as a “north star” in guiding the sequencing and emphasis placed on each deal point. When parties can focus early energy on structuring a transaction that accomplishes the most material goals of each side in principle, it becomes a whole lot easier to navigate the marginal trade-offs of dollars and risk associated with ancillary deal points.



Remain principled on the “end”, flexible on the “means”.

When negotiating material aspects of a transaction, buyers and sellers must be willing to take a step back and view the transaction in totality, rather than honing in on specific deal points.

Too often the parties get caught up in the weeds of specific economic or legal mechanics and “die on the hill” of trying to impose their will on a specific point, when the reality is there are an infinite number of ways to structure a transaction to accomplish various goals.

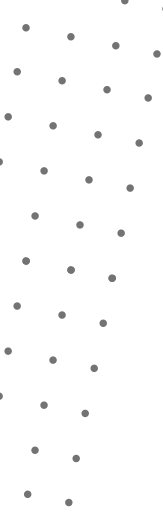
If there are alternative ways to structure a transaction that result in materially similar net economic and risk outcomes, wouldn't it be worth having that conversation? While it is generally not prudent to compromise on the “end” (i.e. the most significant goals each party has in the transaction), it is necessary to remain open-minded on the “means” to get there.

Seek clarity to determine if a “battle” is necessary at all.

Particularly in the earlier stages of a transaction when the parties are just getting to know one another, it is critical to establish clarity around the goals of each party as well as the nature of the sellers' business.

Due to the information asymmetry inherently present in the process (seller has operated the business for 30 years while buyer has had two weeks of high-level diligence), buyers will often err on the side of caution when proposing initial terms.





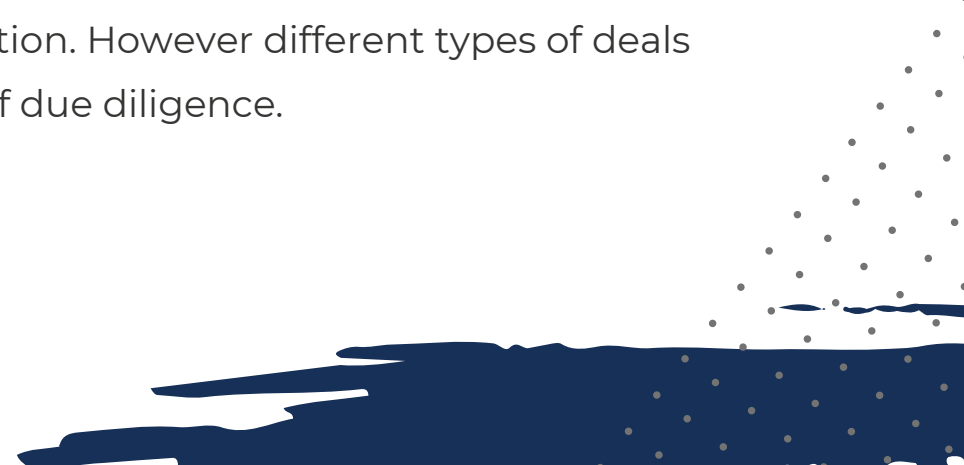
Rather than taking offense and responding emotionally in a way that could jeopardize the transaction, sellers and their advisors should seek to understand the risks the buyer is willing to mitigate, provide additional information or explanation to help the buyer distinguish between “real” and “perceived” risks in order to advance the conversation.

As Sun Tzu once wrote in *The Art of War*, “The greatest victory is that which requires no battle.” Although every transaction that makes it to the finish line will inevitably have a few “battles” (i.e. negotiations around material deal points), the parties must conserve mental and emotional energy by avoiding unnecessary battles so that deal fatigue does not threaten a deal that would otherwise accomplish the goals of both parties.

DUE DILIGENCE & POST TRANSACTION INTEGRATION

We could write a whole book on the keys and pitfalls of due diligence. This particular guide is designed to point to what is “essential” to first-time buyers.

Each buyer needs to verify that everything that is being represented about the business is accurate before making a substantial financial commitment to an acquisition. However different types of deals require different degrees of due diligence.





If you are merely buying the assets/trucks plus qualified drivers, your approach to due diligence is going to be thorough but place particular emphasis on equipment appraisals and driver evaluations. If the business is being valued as multiple of earnings or EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization), the main emphasis of the due diligence will likely be the accuracy of the financial performance which will be assessed through a quality of earnings report.

According to the Corporate Finance Institute, a quality of earnings report is a routine step in the due diligence process for private acquisitions. Net income is not necessarily a 100% accurate indication of financial performance for a business. If a company reports large net income figures but negative operating cash flow, for example, then it may not be as financially sound as it appears.

A quality of earnings report assesses how a company accumulates its revenues – such as cash or non-cash, recurring or nonrecurring. Similarly, post-transaction integration excellence is typically something that is achieved through experience across multiple acquisitions. The essential takeaway for first time buyers is to incorporate humility and restraint in your approach to post transaction integration.

Capturing synergies from the acquisition is paramount to making the deal a success. However, too many first-time buyers change too much too soon.





Consequently, the deal implodes or performs far below expectations. As a rule, Tenney Group advises buyers to resist material operational changes for 90 days (if cash flow permits). This practice has helped many buyers avoid unforced errors.

Once on the other side of the transaction, buyers often see the business differently than they did during the transaction process – especially when they start building relationships with their new employees.

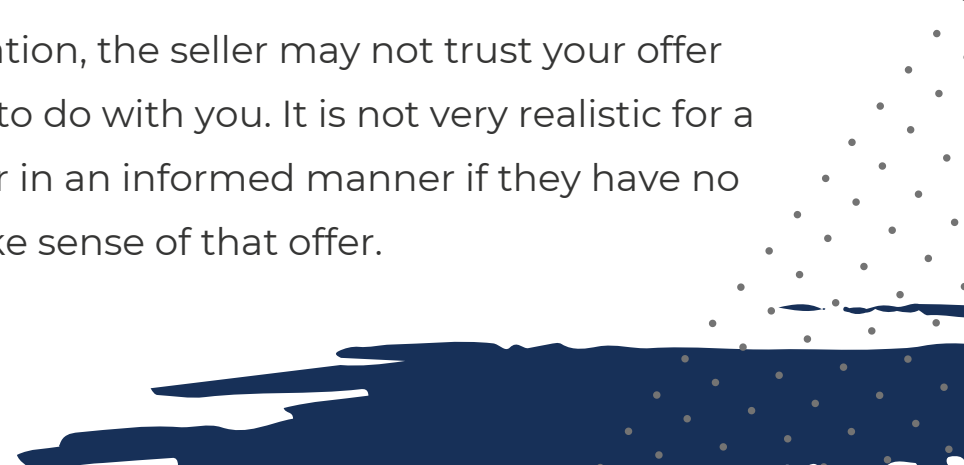
By showing a little short-term restraint, buyers typically refine their initial post-transaction integration plans, make the right changes, and protect their overall investment.

BONUS: BEST PRACTICES FROM THE MOST PROLIFIC ACQUIRERS IN TRANSPORTATION & LOGISTICS

Use a 3rd Party to Mold Valuation Expectations

Active buyers often do not have time to educate sellers about what is fair market value. A simple practice to help save time and money is to direct sellers who want to explore a transaction with you to a third-party valuation provider.

Without a third-party valuation, the seller may not trust your offer anyways. This has nothing to do with you. It is not very realistic for a seller to respond to an offer in an informed manner if they have no context from which to make sense of that offer.





While an objective third-party is molding valuation expectations for one seller, you can spend your time molding other acquisition opportunities in parallel.

Surround Yourself with Experts

This industry is not like other industries. It is not uncommon at all for a good deal to die late in the game due to an avoidable or containable industry problem or issue.

Surround yourself with industry specialists: M&A deal advisors transaction tax specialists, insurance professionals, transaction attorneys. Acquisitions are a team sport.

Get your team together before you start knocking on doors. Otherwise, you will misuse your time and the time of a lot of other people as well.

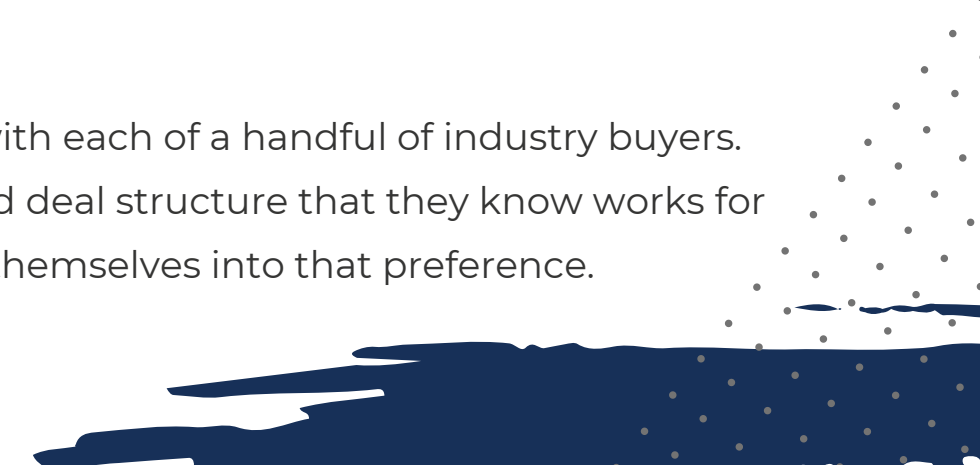
Be Different

Take the time to listen to all of the seller's goals – financial and non-financial. This might be a way to differentiate your offer.

The right concession to a seller may pale in comparison to the long-term value and goodwill it creates for the buyer.

Be Open-Minded

We have done 10+ deals with each of a handful of industry buyers. Sure, they have a preferred deal structure that they know works for them, but they don't box themselves into that preference.



That is why they keep winning. Their approach is simple, “Though I don’t yet see how your proposed deal structure benefits me, if you can show me how it addresses my overall goals, I will consider it.”

Being open-minded doesn’t mean overpaying or assuming unnecessary risks. In many cases, it is just agreeing to view the deal from a different vantage point and, consequently, multiplying the available options to address each party’s goals.

FINAL THOUGHTS

It is an incredibly exciting time to be in trucking. Technological advancements are creating new opportunities to innovate and to build value like we have never seen before.

To fully capitalize on these opportunities, businesses need scale. For some, scale is only available through acquisitions. Like the trucking industry, the process of growing through acquisitions can be very unforgiving.

However, by focusing on the “Essentials” outlined in this guide, you will position yourself to avoid unforced errors, differentiate yourself from other buyers, and profoundly impact your business through acquisitions.



Spencer Tenney

Spencer Tenney, CEO, Tenney Group
stenney@thetenneygroup.com

TENNEY

GROUP

WWW.THETENNEYGROUP.COM

